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What Are the Top Variables Leading to Strategic Investment Decision Making Performance

Christine Soh, Chris Carr, Tony Kinder, Yangpei Lin, and Mohammad M. Mousavi

Abstract—We study the gap between theory and practise on the strategic investment decision (SID) due to its immense impact on finance and strategy by deriving a theoretical framework on successful SIDs from current SID making literature. The theoretical framework summarises the top variables leading to SID making performance. To determine if theory is justified by practise, we assess the usage and influence of financial and strategic management accounting techniques versus control pertaining to the influence of accounting practises on SIDs in the Singaporean context. We examine the actual practises of manufacturing companies in the unique Singaporean context and find out what is the highest influence on their strategic practises: accounting versus strategy through a detailed case study approach obtained from 10 Singaporean companies. From the empirical results, we derive a conceptual framework that denotes the top variables leading to SID performance.

Index Terms—Decision making, performance, Singapore, strategic investment decision.

I. INTRODUCTION AND LITERATURE REVIEW

In this paper, we look at one of the pertinent issues in international accounting research; the gap between theory and practise in successful strategic investment decisions. We examine the current strategic management accounting (SMA) and non-SMA literature that focuses on successful strategic investment decisions (SIDs) and determine their relevance to the Asian context. Next we look at literature combining SMA and non-SMA literature and ascertain their relevance to SID making success.

A. SMA Research on SID Making

One of the gaps in the SMA literature is its lack on emphasis on the factors leading to successful SID performance. Due to the secret nature of SID making, many decision makers are unwilling to divulge what leads to a successful SID. Hence, much literature focuses on the nature of the SID. For example, much strategic management accounting (SMA) research on SID making has been centred on the nature of the SID which is dominated by discussions on financial versus strategic technique usage [1]. In addition, much research on management accounting still focuses on the use and perception of management accounting techniques [2]. Case study research on the use of SMA techniques [3] are

too often descriptive, use too little cases and hardly link the results to a sound theoretical framework. Though there is often suggested templates focusing on SMA techniques for use in corporations, however the actual use of these templates in practical decision making leading to high performance is often neglected [2]. Thus, as much literature focuses on the use of accounting techniques, normative SMA research often have been criticised for being far from reality [2]. Next, we look at non-SMA research on successful SID making.

B. Non SMA Research on Successful SID Making

In non-accounting literature, there is no doubt that there is some research on the influence of procedural rationality, environmental favourability, low politics and decision implementation quality on effective SID making [4], and the factors affecting successful strategic decision implementation [5], however, these literature does not incorporate the influence of finance in successful SIDs. In addition, much qualitative decision making techniques such as management sense-making, emotions, intuition, politics and rationality have been often studied in isolation in the measurement of successful SID making beyond 2010.

C. Combining SMA and Non-SMA Research

In updating the material on SID making, we do not know if qualitative or quantitative measures contribute more to firm performance as there is no consolidated material. In [6]’s paper which combines finance and strategy in investigating SIDs, it was mentioned that firms with higher market orientation and higher market performance are more strategic than financial in their SID making approach. However, this paper does not explain how finance versus strategy leads to successful SID making. In addition, the weightage of financial techniques versus strategy in the path to higher performance was not studied. Thus, following Carr et al (2010)’s paper, we look at a specific category of companies; the market creators that are manufacturing highly valued added products in a turbulent environment to determine the financial and non-financial factors leading to high performance. Thus, this research aims to tie theory to practise by linking empirical work on SID making success to a revised theoretical framework based on a conceptual framework summarising SID making determinants of success.

D. Theoretical Framework

The diagram below summarises our interpretation of earlier conceptual and empirical studies and their influence on successful SIDs. This interpretation is integrated holistically using a preliminary theoretical framework as shown in Fig. 1 here.

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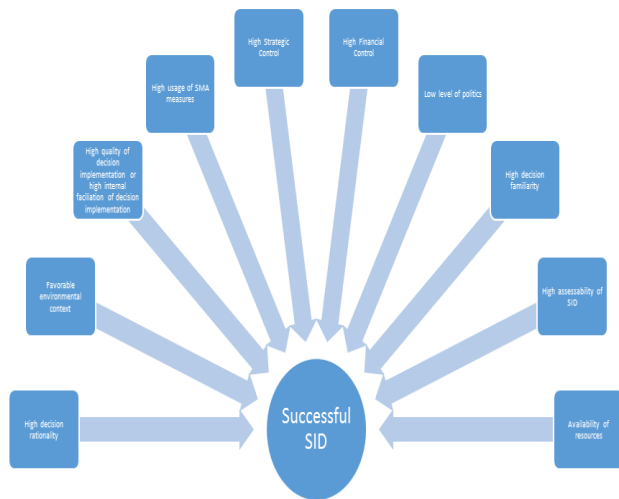


Fig. 1. Preliminary theoretical framework.

In Fig. 1, we have summarised ten factors influencing the implementation of successful SIDs. However, the incorporation of all these ten factors in SID making might be too costly and time wasting for many firms. Thus, our paper seeks to streamline the 10 factors and finally determine the top five factors leading to successful SID making. Currently, papers have not managed to consolidate the factors leading to SID making success using a sound case-study framework. We hope to resolve the gap where much theory have been built on concepts surrounding successful decision making, however, these papers have been very much theoretical.

II. RESEARCH METHODS

A. Case study Method

Research in SIDs have been rampant before 2010. However, most research is standalone, and often based in the western context. Further, no research have integrated financial and non-financial variables. Thus, we used the case study method to replicate most SID research conducted in order to determine the relevance of the factors influencing the success of SIDs to the eastern context. Similar to past SID research that uses single country variables [7], [8] Singapore as the main single country variable is used. To ensure reliability and validity in this research, care is taken to ensure consistency of organisations. To ensure that our results generalize across industries[9], the theoretical population used for the case studies are Singaporean privatised manufacturing organisations with high level of performance. As they are the largest group of firms in the Singaporean landscape [10], the opinions given by the stakeholders for SIDs will be more representative of privatised Singaporean companies as a whole. In our case studies, we selected 10 SIDs which are kept similar to ensure comparability of data. To facilitate international comparability and higher robustness of research [11], the latest and largest SID within the last five years is used. Due to large capital investments, the focus on the largest SID ensures that both financial versus strategic considerations are deliberated before investment. The SID's investment value is kept strictly to S\$1,000, 000 or above and should have contributed to a change in strategy or corporate direction for the company.

III. RESULTS AND DISCUSSION

A. Finance in Successful SID Making: Usage of SMA Tools

In our data, we found a lack of co-relation with the use of financial variables and SID making success. This is similar to literature which often mentioned that Asian firms places little emphasis on the usefulness of financial and strategic analysis in comparison to Anglo-Saxon firms [12] However, this literature was not applied to successful SIDs. Thus, to address this research assumption, we asked the interviewees if they used any financial or SMA techniques in the interviews with the decision makers. From the interviews, our decision makers mainly claimed that they do not use financial techniques in SID making due to the 5 reasons; no need, no knowledge, the need for speed in decision making, the reliance on intuitive knowledge and the preference for tangible results. Most of the finance directors questioned the validity of the SMA tools in predicting future results. The Singaporean companies were aware of simple strategic principles and their usefulness in making financial decisions though some CEOs claimed that they do not believe in them and prefer tangible results. Low usage of SMA tools due to lack of need, disbelief and no knowledge of use are reflected in the quotations below:

1) No need

CEO of SPreEngSg4, "I like your diagram. It looks fancy. I think this customer power thing is our driving force. But no, we do not use these diagrams."

2) No knowledge of usage

CEO of SPVCSg, "We didn't learn all the tools hence we don't use them. But it may be integral in us."

CEO of SMachCompCn, "I will not say we used any financial analysis as we do not know how to use complex analytical tools for our SIDs choice."

3) Disbelief in the use of SMA tools

The CEO of SPreEngSg1: "I don't believe in accounting terms even though I know what is IRR and NPV."

The Finance Director of SMachCompCn "I find no meaning nor significance in making financial calculations that forecast the future. Actual financial results are more important."

As a result, we find that the usage of SMA measures does not affect the implementation of successful SIDs. However, one factor has been often neglected in papers debating the use of financial measures in successful SID making. Financial control over the SID despite low financial tools usage have been regarded very crucial towards the success of these SIDs.

B. Financial Control over SID

On the issue of financial control, we found overall high financial monitoring and control in successful SIDs as financial schedules in post SID making are easier to obtain with today's growth in techniques. We suspect that high financial control is linked to strong perceived city pressures. In contrary to low financial control expected from Asian SIDs, high financial control was shown. Many respondents' agreed that financial profits were the key reasons in SID making. The entrepreneurs in our sample monitor the

financial performance of their SIDs very actively due to high desire for funds to turn around as mentioned by the CEO of SPreEngSg5, “We are not fully automatic. Hence, manufacturing, production and accounting schedules are churned out once a month. Anything once a week is a waste of resources as we need people to key in the numbers. But having said that, I monitor the investment closely to make sure our funds turn around as fast as they can.”

This comment is contrary to common research as financial expectations for Singaporean SID making are expected to be lower than Anglo-Saxon countries due to the similarity of Singapore and Japan as Asian based countries. Strong financial control influence is not expected from the Singaporean sample as Singapore can be considered an eastern representation. However the high level of financial control shown in the sample are parallel to the Singaporean governmental approach evidenced by [13]’s comment that the Singaporean government exhibits a high level of control in all aspects of the Singaporean lifestyle which hints at top-down micromanagement. Hence, the firms’ high level of financial control may be a unique Singaporean feature. The high financial control exhibited by the firms are shown in the quotations below:

Finance Director of SEngCompSg, “Accounting schedules are reported every month. I will then investigate the reports to see if our investments are making money”

CEO of SClothesCambodia, “After investing in anything, we monitor the accounting schedules closely to see if we make money.” Accounting schedules are sent monthly to my finance manager. I then look through them, monitor the trends and take actions to prevent any problems immediately. If any shortfall in profit in a month occurs, I will talk to the managers and nip the problem in the bud. If there is a sudden loss of maybe 10%, I will make a trip to Cambodia personally and revise the planning if required.”

C. Resource Availability

In addition, we found that resource availability is highly important before a company invest in a new SID. If the company has ready access to resources, they are less hesitant in making new investments. If a company needs to invest in the machinery, they will go ahead if they have the finances as shown by the CEO of SPreEngSg1’s statement, “We did not make any technical calculations in making investment decisions. If we need the machinery, we buy it.” Due to anticipated market growth, they will invest readily if they have access to monetary resources as shown in the quotations below:

CEO of SChemSg, “If I have optimum inventory, we make money, and of course, I want to make as much as possible, I will invest. Anything from 20% to 100% makes sense.”

D. Reliance on Intuitive Knowledge

One key reason resulting in the success of SID making is the accuracy of the CEO’s intuition in making and judging whether to put money in a new investment.

CEO of SCosmeticsSing: “I read the reports on American and UK companies, seriously they are very different. But it may not be sensible for us to try and use financial analysis like them as our industry is changing all the time and we do

not want to rely on past data or imagine the future. As again, maybe we understand our industry so well that we do not need tools to help us.”

E. Reliance on Decision Familiarity

The decision makers were asked on the degree of familiarity with the SID before investing in the SID. The Finance Manager of SPreEngSg4 commented, “Singapore is small. We know each competitor, customer thoroughly. In fact, we are all very close. We do not need to use strategic tools. It’s all experience and common sense.”

F. Strategic Control over SID

One of the most important factors affecting the success of the SID is the level of strategic control over the SID. In our results, the company’s degree of strategic control had been classified into active control, moderate control and low control categories. Active control is been linked to staff employment in the subsidiaries. Moderate control implied regular reporting activities. Low control referred to hands off policies.

The results showed that high performing companies with differentiated goods appeared to be highly orientated towards moderate control policies. As the high performing firms had the financial capabilities to diversify vastly by investing in many domestic and overseas SIDs, they had difficulty in implementing active control policies. The CEO of SOilCn mentioned, “I can say I manage the FDI both actively and remotely. Even though I hold meetings with individual country managers now and then, to directly manage the business myself will be too much. We have more than 100,000 employees in each fleet. It is sometimes hard to keep track of all the businesses. To counteract this inability to participate on my part, I work hard and also employ good people to run my subsidiaries. In every country, our management and engineering teams comprised industry veterans who have worked for more than 25 years servicing the oil companies throughout the region.” Most of the CEOs maintain strategic control by trust. The CEO of SFoodCn mentioned, “We talk to our Chinese partners on skype sometimes, but other than that, we do not monitor the investment closely.

High performing companies with higher consolidation preferences and less diversification in products had a preference for highly active control policies. These companies’ high profitability had enabled them to station staff in subsidiaries to manage the SID. Typically, SIDs had been thoroughly considered in pre decision making. By insisting on active parental care on the SIDs, this group could be considered as the most conservative of the 4 categories. For some companies, active control was practised on domestic SIDs due to risk aversion. CEO of SPreEngSg5 highlights, “We practise direct control. Our new investment is only next door. Our new premises and machinery is an additional wing to the entire company.” Moderate control was exhibited for SIDs overseas for poor performing companies. This could be attributed to the reason that they had to maintain high control of their companies in Singapore. Though they are forced to invest overseas to satisfy their investors, yet, they did not have the financial capability to

station staff overseas. Thus, moderate control was exercised by visits to the outlet. The Finance Director of SCircuitBoardCn commented, “We monitor our China subsidiary very actively. Our CEO visits China once a month for a few days to monitor the operations. We also revise the strategy if the restaurant is making loss or breaking even in the month as poor results is not acceptable to our company.” If visits are not possible, very regular communication had been maintained with their business partners overseas. The CEO of SPreEngCn1 commented, “For our new Chinese subsidiary, we manage the factory very tightly. We communicate with our staff in China every week using the email or via phone calls. To check the firm’s production, the financial schedules are sent to me twice a month. We also take turns to visit the China office every month.” Where visits or calls are too time consuming, financial schedules are sent. The CEO of SMachCompCn mentioned, “Throughout the investment’s relationship, regular Skype meetings and monthly progress schedules are sent to us.”

While high strategic control was expected from the behaviours of Asian firms [1], [14], variances in levels of strategic control was not expected. Thus, as it can be seen that the firms prefer to go for high strategic control where possible. Overall, though varied levels of strategic control were shown, the overall preference is to maintain a high strategic control over their SIDs, though it may not always be possible.

G. Revised Theoretical Framework

From the results, we revise the conceptual framework in the literature review as shown in Fig. 2 below.

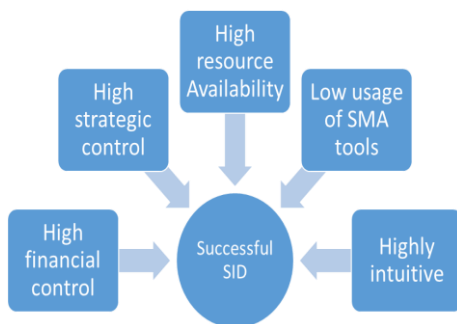


Fig. 2. Conceptual framework.

Our results suggest that high financial and strategic control, high resource availability, extended use of intuition in tandem with the low usage of SMA tools leads to a successful SID. Other factors that suggest SID success such as high SMA tools usage, high quality of decision implementation, high decision rationality, favourable environmental context, low level of politics, high decision familiarity, high SID accessibility may not be so applicable to SID making in the East Asian context. However, high intuition, strategic and financial control, resource availability with high correlation to successful SID making suggest that some research conducted in the western context can be applied to the east.

IV. CONCLUSIONS

This paper examines common themes from SID making

literature to determine the convergence in SID making practises to determine the top five factors leading to a successful SID. We focus on the similarities found within successful SIDs. High financial control was shown which diverges from expectations that Asian firms are looser in financial control in SID making. These results from the Singaporean sample signify that results conducted in other Asian contexts may not be applicable to all Asian countries in general. For financial decisions as a whole, intuitive learning and decision familiarity seems to be the preferred way of evaluating a SID.

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